

One-Year Progress Report

Governor Warner established the Governor's Commission on Efficiency and Effectiveness to develop recommendations that would enable the Commonwealth to serve Virginians more effectively and to make more efficient use of state resources. The commission submitted a report to the Governor in December 2003.

After one year, the Warner Administration has made substantial progress in addressing the recommendations of the "Wilder Commission." This progress comes on top of measures adopted by this administration to close budget shortfalls, eliminate agencies, and reduce the size of the state workforce. Many of the Wilder Commission's recommendations are long-term objectives that will require sustained implementation in order to achieve permanent change in the way state government operates. Savings are generally not achieved immediately – with some exceptions – but are best characterized as "costs avoided" in the future or long-term savings resulting from these fundamental changes in the way the Commonwealth conducts its business. Indeed, the commission projected that it would take 2-4 years to achieve permanent annual savings in most areas. An important exception is the Department of Taxation's Amnesty Program that resulted in \$98.3 million in collections from receivables owed the Commonwealth.

In addition to Wilder Commission recommendations, the Warner Administration is aggressively pursuing a number of other initiatives and new practices that will result in efficiencies and savings in future years.

The following is a summary report of progress to date on key recommendations in the three sections of the Wilder Commission report – streamlining, savings in government operations, and continuous improvement.

I. Streamlining

Of the several agencies recommended for merger, elimination, and reorganization, the administration has accomplished all but a handful. Those not accomplished were either proposed but rejected by the General Assembly or not pursued after further analysis. The following is a delineation of every recommendation in the “Streamlining” section of the report and the status of each:

- **Merge the Natural History and Science Museums:** Governor proposed; General Assembly rejected.
- **Merge Chesapeake Bay Local Assistance Department into the Department of Conservation and Recreation:** Governor proposed; General Assembly rejected.
- **Merge the Milk Commission into Department of Agriculture and Consumer Services:** Governor proposed; General Assembly concurred.
- **Consolidate the Charitable Gaming, Racing, and Lottery departments:** Considered in consultation with these departments and their constituencies and deemed to be unworkable and inappropriate given the diverse missions, constituencies, and operations.
- **Merge the Council on Human Rights’ functions with the Office of the Attorney General:** Governor proposed and General Assembly elected to maintain the agency but locate it in the OAG for administrative support.
- **Integrate Richard Bland College into the community college system:** Neither proposed by the Governor nor any legislator.
- **Eliminate the CIT in its existing form:** The Governor did not accept the recommendation. The General Assembly adopted a ’08 funding sunset in anticipation of achieving federal funds to support the institute.
- **Assess value of privatization of ABC retail operations and propose legislation:** Governor Warner included language in his 2003 introduced budget bill that provided for the Secretary of Public Safety, with the assistance of the Secretaries of Finance and Commerce and Trade, and any necessary consultants and experts, to develop a plan – including draft legislation – for sale of alcoholic beverages by the private sector, beginning on July 1, 2004. The language required a detailed analysis of revenue and consumption impacts. Both the House Appropriations and Senate Finance Committees amended the introduced budget to remove this language.

- **Merge Chippokes Plantation into Department of Conservation and Recreation:** Governor proposed; General Assembly conducted a study concluding that merger is ill-advised.
- **Move office of Consumer Services from Agriculture:** After additional study and analysis, no effective alternative home for consumer services was identified.
- **Eliminate General Fund support for the Commonwealth Competition Council:** General Assembly substituted a funding system based on a percentage of savings achieved by the council's programs and initiatives in place of General Fund support.
- **Merge the Departments of Blind and Vision Impaired, Deaf and Hard of Hearing, and Rehabilitative Services:** After additional study and analysis, no merger plan was identified that would not result in a diminution of services.

In addition, the commission recommended three areas for change, as follows:

- **Develop a common chart of accounts to identify total dollars spent on consultants:** The Governor directed restricted use of consultants as a cost-cutting measure. The administration will develop a system of standard procedures for engaging consultants in order to monitor expenditures and ensure accountability.
- **Eliminate the Commonwealth's function as a power plant operator:** A multi-agency task force is compiling a statewide use and demand data baseline. The administration is continuing discussions with private sector interests regarding potential PPEA proposals. This undertaking is complex, requiring major staff resources with limited authority to proceed. This is an ongoing initiative.
- **Develop a plan for reforming administration and funding of local constitutional officers:** Neither the Governor nor the General Assembly have identified effective solutions or alternatives to the current arrangement.

II. Savings in Government Operations

The commission made recommendations to improve business practices in the following six categories of the Commonwealth's operations. In summary, the commission recommended modifications that incorporate enterprise-wide approaches, collection and systematic analysis of data to reform core business

functions, reduction of the diffusion of functions across multiple agencies in favor of leveraging the size of the Commonwealth's activities to reduce costs, and increased utilization of private sector best business practices.

A. Procurement

The commission encouraged greater use of private sector procurement strategies that rely heavily on analytical tools, planning, and collaboration to leverage purchasing power in the marketplace. The recommendations include the following:

Develop enterprise wide approaches to purchasing and gathering information about agency spending patterns, promoting collaboration between departments and agencies.

Two successful, complementary initiatives are underway to carry out this recommendation:

- Virginia's national award-winning **electronic procurement system (eVA)** provides data on agency and institutional spending and creates efficiencies and cost savings in procurement operations. As of January 25, 2004, agencies, colleges and universities, and some local governments have placed 230,829 purchase orders through the system for a total spend of \$1.8 billion.

eVA has been developed and is managed through a public/private partnership with American Management Systems.

eVA is a self-funding procurement tool under continuous development with new, more sophisticated modalities to be rolled out in the coming months. It will reach its full potential when governmental institutions and their private sector business partners become fully acclimated to the benefits of electronic procurement.

- As result of the data that eVA makes available, the **Virginia Partners in Procurement (VaPP)** initiative was launched to test the viability of "spend management" – a private sector best business practice – as a means of leveraging the combined purchasing power of government agencies and institutions. Using the expertise of a private sector contractor and collaboration among agencies and other governmental units, 52 new statewide contracts were negotiated in 9 pilot categories of government spend purchasing. The resulting savings potential for participating agencies is projected eventually to reach \$126 million over a five-year period in the 9 categories. Round II is underway, developing new cost-saving contracts in additional categories, training procurement personnel in best procurement practices, and putting in

place a system to monitor and measure public spending on goods and services.

Re-engineer the Capital Outlay Process.

Financial operations have been restructured. The Bureau of Capital Outlay Management (BCOM) has significantly reduced review time so that it exceeds private sector standards. Formal authority for projects has been delegated to certain educational institutions except for fire and safety code review. More rigid performance standards are being achieved and BCOM staff has undergone training to improve project management and customer service. Additional improvements are in the planning stage.

Premise the procurement of prescription drugs on a preferred drug plan with a three-tier system.

The state employee health plan was overhauled and, effective July, 2003, instituted a single plan (COVA Care) that includes a three-tiered drug benefit. Medicaid is also phasing in a preferred drug list program.

Enact legislation to authorize use of reverse auctioning as a permanent procurement tool.

Proposed by the Governor and adopted by the 2003 session. eVA has full capability for reverse auctions. VITA has one scheduled for February and other non-IT procurements will use this tool in the near future.

Develop an effective minority supplier program.

The Governor's Executive Order 29 directed expanded minority procurement by agencies and regular reporting. SWAM procurement has improved significantly on a percentage basis but not in absolute terms. That fact has been documented by a Governor-proposed disparity study that has been released. Governor Warner has established a cross-Secretarial, multi-agency task force to develop specific strategies to expand access of minority- and women-owned enterprises to business opportunities with state government.

Remove Virginia Correctional Enterprises as a mandatory supplier for universities.

This item has not yet been addressed.

B. Information Technology

The commission predicted significant savings and efficiencies in IT from enterprise-wide approaches that use best procurement practices, eliminate duplication, and apply technology to improve work performance and customer service. Five specific recommendations were consolidated into the IT reform initiative and the creation of VITA. The Governor proposed

an aggressive reform effort to accomplish these goals, but the General Assembly scaled down the scope and directed an 18-month transition timetable.

Negotiate statewide contracts for IT purchases that leverage purchase volume into substantial discounts.

Through the VaPP initiative outlined in the procurement section above, new statewide contracts for computers and software have been negotiated resulting in substantial projected savings. VaPP Round II includes re-negotiation of additional contracts for commodity computer peripherals and re-engineering procurement operations.

Consolidate administrative information systems projects across agencies.

The administration is proceeding with implementation in accordance with the timetable established by the General Assembly.

Combine data centers to increase effectiveness and cost savings.

Included in the VITA project plan for 05-06. Private sector PPEA proposals have been received or are anticipated and will be evaluated in accordance with established PPEA procedures.

Use technology to consolidate business processes.

Given that state government is comparable to a Fortune 300 company, the commission was especially critical of the proliferation of ERP (enterprise resource planning) systems that frustrate collaborative business operations for efficiencies and cost savings. PPEA proposals have been received or are anticipated for an integrated ERP system. These too will be evaluated in accordance with established procedures.

Use web-based technology to organize customer service activities.

The recommendation is included in the VITA project plan for '05-06. Full consolidation of existing online licensing and permitting applications would require significant investment. Therefore, VITA will pursue self-funding models similar to eVA and the Tax Partnership.

C. Real Estate Operations

Asset management

The commission faulted the current practice of managing an assemblage of real estate assets with a decentralized management approach. It projected that the Commonwealth could achieve significant savings with a **portfolio management system** that would rationalize fixed asset management and reduce costs. The Department of General Services has contracted with a private sector company to assist in the development of such a system. Following the completion of Phase I (data collection and analysis), the contractor will recommend an implementation plan. It took

the federal government four years to implement fully a similar management system, so savings will not immediately accrue. Once in place, significant savings will be achieved.

Sale-leaseback

The commission recommended exploration of these opportunities. A number of PPEA proposals are under active consideration at the local and state levels. PPEA procedures dictate a cost-benefit analysis of innovative proposals for inclusion with recommendations forwarded to the Governor and to the General Assembly.

Surplus property

All surplus property that is marketable has either been sold or is being actively marketed. In addition, a number of surplus parcels have been liquidated in the past year. One parcel that was not marketable has been successfully transferred to a locality. Another major partnership with a locality is underway. Opportunities to put challenging parcels to productive use are being evaluated.

D. Inventory Management

The commission recommended the adoption of more sophisticated management methods to reduce balances, standardize practices, centralize distribution, and involve vendors in inventory reductions. Because staff resources had been devoted to the pursuit of other commission recommendations, this initiative was postponed until '04 when staff resources can be devoted to this recommendation.

E. Receivables

The commission made a number of recommendations to enhance collections on delinquent accounts. The tax department has aggressively pursued its \$1 billion in gross receivables. New tools employed as a result of the department's partnership with American Management Systems have resulted in steady increases in compliance collections.

Three additional new programs have been put into place, resulting in significant collections. These programs include a Tax Compliance Initiative, Tax Amnesty, and Federal Debt Setoff. TAX will continue to work with the private sector companies to adapt business strategies in this area.

The commission's recommendation regarding "debt sales" is not being pursued because of constitutional constraints.

F. Human Resources

The commission made recommendations in two areas: payroll systems and training.

Roll individual agency payroll systems into service bureaus.

Not only payroll but also other core business systems – such as accounting, human resources, procurement, financial systems, etc. – must be integrated into a **statewide consolidated suite of ERP modules** that will greatly enhance the capacity of state government to streamline operations and cuts costs. Several private sector interests have submitted PPEA proposals for the purpose. They are under review and are a high priority. (See Information Technology above.)

Use e-conferencing and video-conferencing to reduce travel and other incidental costs and develop a comprehensive approach to training by collaboration among agencies that provide training.

An Electronic Learning Management System is under development as a result of collaborative planning among agency human resource officers. This system will greatly facilitate cost-effective and efficient training across the Commonwealth.

Develop a comprehensive approach to training that defines appropriate roles and responsibilities for DHRM, agencies, higher education, etc.

As a part of its strategic plan, DHRM will assemble a statewide team to develop a statewide plan that will include role clarification and collaborative training strategies and programs. Private sector expertise will be sought and incorporated.

III. Continuous Improvement

In addition to streamlining and operating more efficiently, the commission extolled the leaders of state government to make changes that would ensure a strategic process for continuing improvement of government over the long term.

Reforms to enhance governmental planning and efficiency

- **Give the people the right to re-elect a Governor.**

The Governor proposed a constitutional amendment to eliminate the restriction that limits a Governor to one term. The General Assembly defeated the measure in the '03 session.

- **Change the budget cycle.**

The commission recommended that a new Governor present his first budget in the second legislative session of his term rather than the third. While neither the Governor nor any legislator has forwarded this specific proposal, a number of reforms have been made in budget development and financial management. These include requiring a revised comprehensive revenue re-forecast at the first signs of revenue shortfalls, increasing deposits into the Rainy Day Fund in good economic times, assessing the long-term impact of certain proposed legislation, and reviewing the actual cost of new initiatives.

Enhance Government Operations

- **Reorganize Cabinet functions for clarity of responsibility and authority.**

There is no plan to implement this recommendation.

- **Implement a Roadmap for Virginia's Future.**

As a result of 2003 legislation, the Council for Virginia's Future was established to develop guiding principles, a long-term vision, a system of accountability based on performance management and measures – all to identify long-term objectives, adopted through a collaborative process, and a system of accountability that can measure and assess progress against those objectives. The council is submitting a preliminary report to the General Assembly on its progress to date.

Optimize Virginia's Workforce

- **Fund a performance-based compensation system.**

The commission praised the Commonwealth's compensation philosophy but noted that it has never implemented its performance-based compensation system. The commission urged competitive compensation in order to attract and retain a first-class workforce. The Governor has proposed a pay raise for state employees, teachers, and constitutional officers and provided a pay for performance incentive for classified state employees who achieve an "extraordinary" evaluation rank.

- **Evaluate the total compensation package to provide real merit pay and direct compensation and reduce the amount of paid time-off.**

The Governor has directed that a task force be convened, which will include private sector expertise, to evaluate the current compensation and benefits package and to formulate recommendations to make it competitive with the private sector and provide greater flexibility for employees.

Promote Regionalism

The commission noted that the recommendations it was making for improvements in the efficiencies and cost effectiveness of state government services were applicable to local governments also. To that end, local governments have been encouraged to participate in and take advantage of the reforms being made in procurement. Local governments have been urged to use eVA and to participate in the VaPP initiative in order to enhance the ability to negotiate favorable contracts by leveraging the combined purchasing power of both state and local governments. The Governor has asked for positions at the Department of General Services for this purpose in order to reduce the cost of government at every level. School divisions are participating in a collaborative process under the VaPP initiative to re-negotiate more favorable prices for school buses, rather than continuing to buy buses in a decentralized fashion. The pursuit of opportunities for collaboration between state and local governmental units is a major objective of the Warner Administration.

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